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Jay C. Keithley
Vice President
Law & External Affairs

EX PARTE

October 3, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

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OCT 3 - 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

RE: In the Matter of Federal-State Joint Board on Universal Service
CC Docket No. 96-45

Dear Mr. Caton:

Today, representatives of Sprint Corporation met with Mr. Greg Rooston, Chief Economist of the Common Carrier Bureau, to discuss Sprint's position in the above referenced docket. Attached is the handout used in the discussion.

Representing Sprint Corporation were: Jay Keithley, Dick Juhnke, Jim Sichter and Brian Staihr. We request that this information be made a part of the record in this matter. Two copies of this letter, in accordance with Section 1.1206(a)(1), are provided for this purpose. If you have any questions, please feel free to call.

Sincerely,

Jay C. Keithley

Attachments

cc: Greg Rooston

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Estimated Elasticities

- Basic access to the network: .03-.05
- IntraLATA toll: .40-.50
- InterLATA toll: .72-.80
- Call Waiting: .52
- Call Forward: 1.39
- Caller ID: 1.33
- Auto Call Return: .49

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Overall Expenditure

<u>HH Income Group</u>	<u>% of HH</u>	<u>Average Total Bill</u>
Under 10K Annually	11.1	\$45.40
\$10K-\$19,999	18.9	\$48.70
\$20K-\$29,999	18.8	\$52.10
\$30K-\$39,999	15.3	\$52.70
\$40K-\$49,999	10.8	\$51.90
\$50K-\$74,999	19.1	\$59.60
\$75K-\$99,999	3.7	\$63.11
\$100K and Over	2.3	\$70.51

Expenditure on Local Phone Bill

<u>HH Income Group</u>	<u>% of HH</u>	<u>Average LEC Bill</u>
Under 10K Annually	11.1	\$29.21
\$10K-\$19,999	18.9	\$29.56
\$20K-\$29,999	18.8	\$30.12
\$30K-\$39,999	15.3	\$31.01
\$40K-\$49,999	10.8	\$31.78
\$50K-\$74,999	19.1	\$32.79
\$75K-\$99,999	3.7	\$35.60
\$100K and Over	2.3	\$41.73

Expenditure on Long Distance Bill

<u>HH Income Group</u>	<u>% of HH</u>	<u>Average LD Bill</u>
Under 10K Annually	11.1	\$16.17
\$10K-\$19,999	18.9	\$19.11
\$20K-\$29,999	18.8	\$21.94
\$30K-\$39,999	15.3	\$21.73
\$40K-\$49,999	10.8	\$20.09
\$50K-\$74,999	19.1	\$26.80
\$75K-\$99,999	3.7	\$27.51
\$100K and Over	2.3	\$28.78

Expenditure on LEC Toll

<u>HH Income Group</u>	<u>% w/LEC Toll</u>	<u>Avg. Expenditure</u>
Under 10K Annually	52%	\$8.16
\$10K-\$19,999	58%	\$8.59
\$20K-\$29,999	63%	\$8.05
\$30K-\$39,999	68%	\$8.63
\$40K-\$49,999	65%	\$8.78
\$50K-\$74,999	68%	\$8.87
\$75K-\$99,999	67%	\$11.57
\$100K and Over	73%	\$13.99

Penetration of Vertical Features

<u>HH Income Group</u>	<u>% w/Any Vertical Features</u>
Under 10K Annually	34.3%
\$10K-\$19,999	32.8%
\$20K-\$29,999	39.6%
\$30K-\$39,999	46.2%
\$40K-\$49,999	47.3%
\$50K-\$74,999	48.9%
\$75K-\$99,999	51.6%
\$100K and Over	52.7%

Expenditure on Cable Television

<u>HH Income Group</u>	<u>% w/CATV</u>	<u>Avg. Expenditure</u>
Under 10K Annually	61.76%	\$30.22
\$10K-\$19,999	65.14%	\$30.04
\$20K-\$29,999	69.25%	\$31.09
\$30K-\$39,999	73.45%	\$31.69
\$40K-\$49,999	75.47%	\$32.12
\$50K-\$74,999	81.18%	\$34.16
\$75K-\$99,999	85.20%	\$33.41
\$100K and Over	93.60%	\$42.92

Income Group as % of Non-connected Population

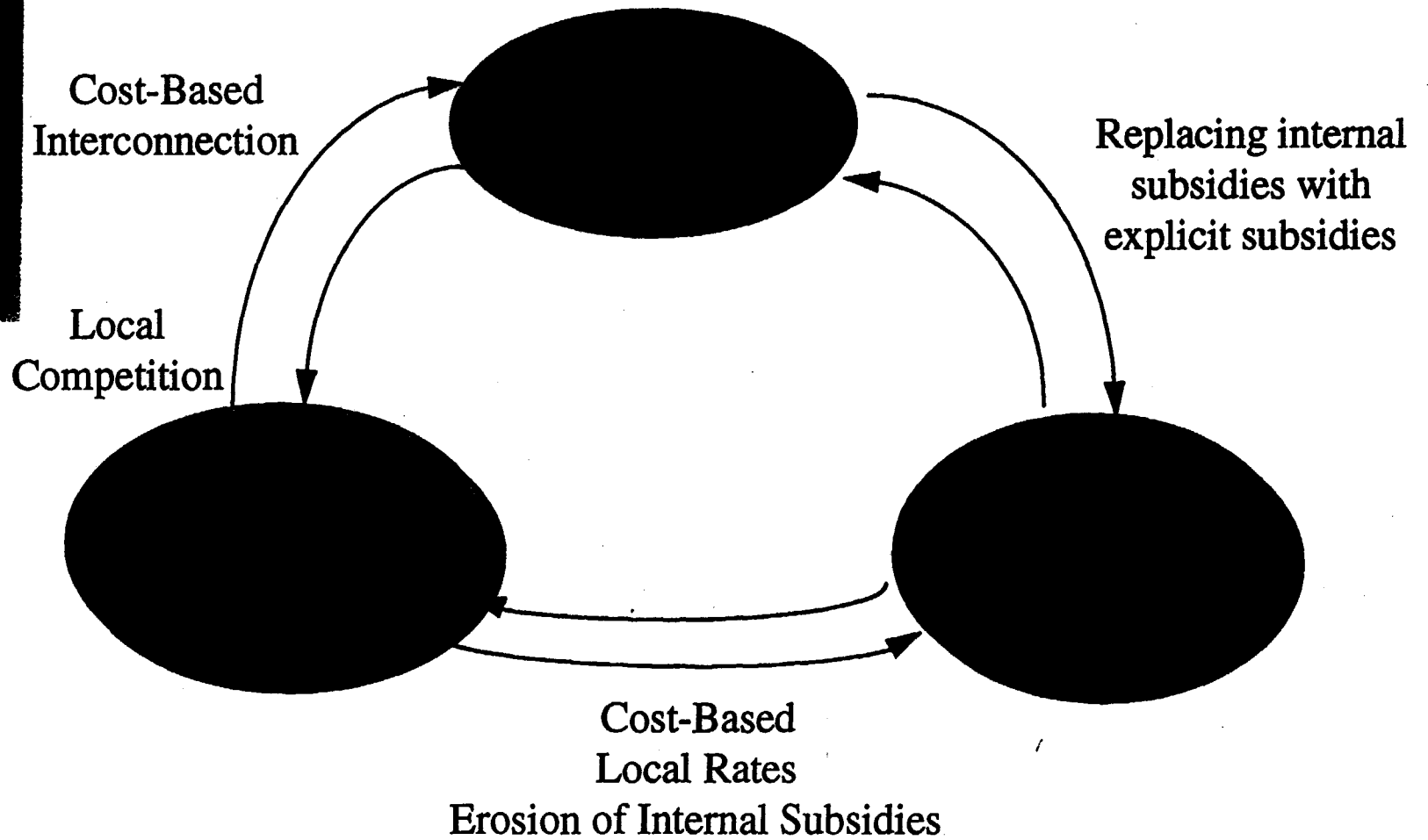
<u>HH Income Group</u>	<u>% of Pop.</u>	<u>% of Non-Connected</u>
Under 10K Annually	11.1	33.80
\$10K-\$19,999	18.9	27.90
\$20K-\$29,999	18.8	12.90
\$30K-\$39,999	15.3	7.80
\$40K-\$49,999	10.8	6.40
\$50K-\$74,999	19.1	6.60
\$75K-\$99,999	3.7	3.10
\$100K and Over	2.3	1.00

**SPRINT'S PLAN FOR
UNIVERSAL SERVICE
SUPPORT**

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September 26, 1996





ACCESS REFORM AND UNIVERSAL SERVICE

- Unsustainability of internal (Implicit) Subsidies
- Impact of Access Reform

UNSUSTAINABILITY OF INTERNAL (IMPLICIT) SUBSIDIES

Maintaining Universal Service Support through internal “cross subsidies” is Inconsistent with the Telecom Act, and is Incompatible with, and Unsustainable in, a Competitive Market Place

- Problems with Embedding “Subsidies” in LEC Prices
 - Neither explicit nor targeted
 - Artificially low rates (for the subsidized services) are a barrier to competitive entry
 - Artificially high rates (for the services providing the subsidy)...
 - Provide incorrect price signals to potential entrants
 - Are unsustainable



Unsustainability of Current Ix Access Rates in a Competitive Environment

- The Telecom Act of 1996 requires incumbent LECs to provide unbundled Network Elements to competitive LECs at cost-based rates
 - Creating an arbitrage opportunity to the extent that the total revenues (Local and Access) generated by an element under the existing rate structures exceed the costs for that unbundled element
 - And, ultimately, undermining the cross-subsidies embedded in existing rate structures
- New Entrants can undermine Access Rates
 - If rate level too high (above economic costs)
 - If rate structures inefficient
 - e.g., per MOU recovery of fixed or NTS costs



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Carrier Common Line Revenues Disaggregated by Customer Usage

Usage Segment MOU/Month	Access Lines	% of Total	CCL Revenue (Inter & Intra)	% of Total	CCL Revenue per Line
Residential					
0	70,447	2.5%	\$ -	0.0%	\$ -
0-100	767,815	27.2%	\$ 673,485	3.1%	\$ 0.88
100-200	442,665	15.7%	\$ 1,326,621	6.2%	\$ 3.00
200-300	324,892	11.5%	\$ 1,591,209	7.4%	\$ 4.90
300-1000	939,235	33.3%	\$ 9,753,185	45.5%	\$ 10.38
1000-2000	226,949	8.0%	\$ 5,399,230	25.2%	\$ 23.79
2000-5000	50,405	1.8%	\$ 2,335,103	10.9%	\$ 46.33
5000+	2,358	0.1%	\$ 348,841	1.6%	\$ 147.94
TOTAL	2,824,766	100.0%	\$ 21,427,675	100.0%	\$ 7.59
Business					
0	193,955	14.3%	\$ -	0.0%	\$ -
0-100	567,692	42.0%	\$ 363,886	3.5%	\$ 0.64
100-200	152,528	11.3%	\$ 477,805	4.5%	\$ 3.13
200-300	94,035	7.0%	\$ 493,989	4.7%	\$ 5.25
300-1000	235,348	17.4%	\$ 2,710,393	25.8%	\$ 11.52
1000-2000	67,702	5.0%	\$ 1,938,895	18.4%	\$ 28.64
2000-5000	31,536	2.3%	\$ 1,993,250	19.0%	\$ 63.21
5000+	9,617	0.7%	\$ 2,534,321	24.1%	\$ 263.53
TOTAL	1,352,413	100.0%	\$ 10,512,539	100.0%	\$ 7.77

Note: Based on November 1995 billing records for United & Centel Florida, CT&T Centel of North Carolina, Ohio, United & Centel Texas, Illinois and Missouri



Local Switching "Subsidy"* Disaggregated by Customer Usage

Usage Segment MOU/Month	Access Lines	% of Total	Local Switching (Inter & Intra)	% of Total	Local Switching per Line
Residential					
0	70,447	2.5%	\$ -	0.0%	\$ -
0-100	767,815	27.2%	\$ 316,420	2.9%	\$ 0.41
100-200	442,665	15.7%	\$ 642,250	5.9%	\$ 1.45
200-300	324,892	11.5%	\$ 782,421	7.1%	\$ 2.41
300-1000	939,235	33.3%	\$ 4,947,455	45.1%	\$ 5.27
1000-2000	226,949	8.0%	\$ 2,839,538	25.9%	\$ 12.51
2000-5000	50,405	1.8%	\$ 1,268,355	11.6%	\$ 25.16
5000+	2,358	0.1%	\$ 182,012	1.7%	\$ 77.19
TOTAL	2,824,766	100.0%	\$ 10,978,451	100.0%	\$ 3.89
Business					
0	193,955	14.3%	\$ -	0.0%	\$ -
0-100	567,692	42.0%	\$ 164,100	3.4%	\$ 0.29
100-200	152,528	11.3%	\$ 222,116	4.6%	\$ 1.46
200-300	94,035	7.0%	\$ 232,429	4.8%	\$ 2.47
300-1000	235,348	17.4%	\$ 1,292,699	26.9%	\$ 5.49
1000-2000	67,702	5.0%	\$ 919,511	19.1%	\$ 13.58
2000-5000	31,536	2.3%	\$ 898,966	18.7%	\$ 28.51
5000+	9,617	0.7%	\$ 1,075,655	22.4%	\$ 111.85
TOTAL	1,352,413	100.0%	\$ 4,805,476	100.0%	\$ 3.55

Note: Based on November 1995 billing records for United & Centel Florida, CTYT Centel of North Carolina, Ohio, United & Centel Texas Illinois and Missouri

**Difference between current access rates and local termination proxy of \$.02/Mou*



Interconnection Charge (RIC) Disaggregated by Customer Usage

Usage Segment MOU/Month	Access Lines	% of Total	RIC (Inter & Intra)	% of Total	RIC per Line
Residential					
0	70,447	2.5%	\$ -	0.0%	\$ -
0-100	767,815	27.2%	\$ 185,229.71	2.6%	\$ 0.24
100-200	442,665	15.7%	\$ 391,464.89	5.5%	\$ 0.88
200-300	324,892	11.5%	\$ 488,814.88	6.9%	\$ 1.50
300-1000	939,235	33.3%	\$ 3,194,457.44	45.2%	\$ 3.40
1000-2000	226,949	8.0%	\$ 1,866,694.63	26.4%	\$ 8.23
2000-5000	50,405	1.8%	\$ 828,011.64	11.7%	\$ 16.43
5000+	2,358	0.1%	\$ 114,554.23	1.6%	\$ 48.58
TOTAL	2,824,766	100%	7,069,227	100.0%	\$ 2.50
Business					
0	193,955	14.3%	\$ -	0.0%	\$ -
0-100	567,692	42.0%	\$ 94,732	3.2%	\$ 0.17
100-200	152,528	11.3%	\$ 131,072	4.5%	\$ 0.86
200-300	94,035	7.0%	\$ 139,152	4.7%	\$ 1.48
300-1000	235,348	17.4%	\$ 787,014	26.7%	\$ 3.34
1000-2000	67,702	5.0%	\$ 565,253	19.2%	\$ 8.35
2000-5000	31,536	2.3%	\$ 560,256	19.0%	\$ 17.77
5000+	9,617	0.7%	\$ 667,707	22.7%	\$ 69.43
TOTAL	1,352,413	100.0%	2,945,186	100.0%	\$ 2.18

Note: Based on November 1995 billing records for United & Centel Florida, CT&T Centel of North Carolina, Ohio, United & Centel Texas, Illinois and Missouri



Total Access Subsidy Disaggregated

Usage Segment	Access Lines	% of Total	Access Subsidy (Inter & Intra)	% of Total	Access Subsidy per Line
Residential					
0	70,447	2.5%	\$ -	0.0%	\$ -
0-100	767,815	27.2%	\$ 1,175,135	3.0%	\$ 1.53
100-200	442,665	15.7%	\$ 2,360,336	6.0%	\$ 5.33
200-300	324,892	11.5%	\$ 2,862,445	7.3%	\$ 8.81
300-1000	939,235	33.3%	\$ 17,895,097	45.3%	\$ 19.05
1000-2000	226,949	8.0%	\$ 10,105,463	25.6%	\$ 44.53
2000-5000	50,405	1.8%	\$ 4,431,469	11.2%	\$ 87.92
5000+	<u>2,358</u>	<u>0.1%</u>	<u>\$ 645,408</u>	<u>1.6%</u>	<u>\$ 273.71</u>
TOTAL	2,824,766	100.0%	\$ 39,475,354	100.0%	\$ 13.97
Business					
0	193,955	14.3%	\$ -	0.0%	\$ -
0-100	567,692	42.0%	\$ 622,717	3.4%	\$ 1.10
100-200	152,528	11.3%	\$ 830,993	4.6%	\$ 5.45
200-300	94,035	7.0%	\$ 865,571	4.7%	\$ 9.20
300-1000	235,348	17.4%	\$ 4,790,106	26.2%	\$ 20.35
1000-2000	67,702	5.0%	\$ 3,423,659	18.7%	\$ 50.57
2000-5000	31,536	2.3%	\$ 3,452,473	18.9%	\$ 109.48
5000+	<u>9,617</u>	<u>0.7%</u>	<u>\$ 4,277,683</u>	<u>23.4%</u>	<u>\$ 444.80</u>
TOTAL	1,352,413	100.0%	\$ 18,263,202	100.0%	\$ 13.50

Note: Based on November 1995 billing records for United & Centel Florida, CT&T Centel of North Carolina, Ohio, United & Centel Texas, Illinois and Missouri



Sustainability Example: Carrier Common Line Charge

Recovery of NTS Loop Costs through per MOU Charge

- Results in high users contributing well in excess of the costs of their loops
- Providing incentive for IXC's (or CLEC's) to "cap" the access costs of serving these customers by serving them through either non-ILEC facilities or resold ILEC loops

	<i>CCLC Revenue</i> <u><i>Generated by Customer</i></u>	<i>Unbundled</i> <u><i>Loop Cost</i></u>	<i>Access Savings to IXC</i> <u><i>Net Revenue gain to CLEC</i></u>
Residential Customer	\$46.33	\$20.00	\$26.33
Business Customer	\$63.21	\$15.00	\$48.21



Comparison between IX Access and Local Interconnection Pricing

	<u>Loop</u>	<u>Local Switching</u>	<u>Transport</u>	<u>Transport RIC</u>
IX Access (Industry Average)	\$.00834/MOU	\$.00991/MOU	\$.00250/MOU	\$.00674/MOU
Local Interconnection •(Transport and termination)	Not included	TE-LRIC* (.2c - .4c/MOU)	TE-LRIC*	Not included

*Per FCC 96-98 Order



Revenue Impact of Pricing IX Access at Local Interconnection Levels (Industry Totals Interstate Only)

\$11.2B Total

Switched
Transport
\$1.0B

Local
Switching
\$4.0B

RIC
\$2.8B

CCLC
\$3.4B

Current Switched
Access Revenues

Assumptions

- *CCLC Eliminated
- *RIC Eliminated
- *Local Switching
priced at .2¢/MOU

\$1.8B Total

\$1.0B
Switched
Transport

\$.8B
Local
Switching

Switched Access
Revenues at Local
Interconnection Levels



SPRINT UNIVERSAL SERVICE PLAN

- Principles
- Services Eligible for Subsidies
- Determination of Subsidy
- Costing Standard
- Eligibility Criteria for Receiving the Subsidy
- Implementation
- Funding
- Administration of Funds

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Sprint Plan

Sprint Universal Service Plan -- Principles

- **Competitive Neutrality**
 - **Should Not Impair Competition**
 - All carriers should contribute to USF on an equitable basis
 - **Subsidy Funding Should be Portable**
 - Available to all qualified providers of local service
- **Specific (Targeted)**
- **Predictable**
- **Eliminate Current Internal (Implicit) Subsidy Flows, as well as replace Existing Explicit Subsidy Funding**

SPRINT PLAN

SERVICES ELIGIBLE FOR SUBSIDIES

- Residential Services Only
- Initial Service Definition
 - Local Dial Tone and Ability to Make Local Calls
 - Access to Chosen Long Distance Carrier
 - Access to Emergency Services
 - Single Party Service
 - Touch Tone
 - Annual Local Directory
 - Directory Assistance



SPRINT PLAN DETERMINATION OF SUBSIDY

- Income Related Subsidies
 - Lifeline, Linkup, and Other Explicit Subsidy Mechanisms to Support Low Income Subscribers Would Continue
- High Cost Area Subsidies
 - Available to Subsidize Basic Residential Service in Areas Where the Costs of Providing Service Exceed National and State Standard for “Affordable” Rate

